

**Internal Revenue Service**

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Date:

MAY 18 1999

Legend:

Company =

Trust =

Fund 1 =

Fund 2 =

Fund 3 =

Fund 4 =

Fund 5 =

Fund 6 =

Year A =

Year B =

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Year C =

Year D =

Year E =

Year F =

State =

Dear

This is in reply to a letter dated March 2, 1999, seeking consent to revoke, for Year D and subsequent calendar years, a previous election made by Fund 1, Fund 2, Fund 3, Fund 4, Fund 5 and Fund 6 (collectively the "Funds") under section 4892(e)(4)(A) of the Internal Revenue Code. Additionally, the Funds request that the calculation of each of their required distributions of capital gain net income under section 4982(b)(1) and (e)(2) for the calendar year ending December 31, Year D, be determined on the basis of capital gains and losses realized and recognized during the ten-month period from January 1, Year D, through October 31, Year D.

Trust is organized as a State business trust and is registered with the Securities and Exchange Commission as an open-end management investment company organized under the Investment Company Act of 1940, 15 U.S.C. §80a-1 et seq (the "1940 Act"). As a result of Trust's registration under the 1940 Act, each of the Funds is also registered as an open-end management investment company under the 1940 Act. In addition, each of the Funds has registered its shares pursuant to the Securities Act of 1933, 15 U.S.C. §77a et seq (the "1933 Act") and each has elected and intends to continue to qualify for treatment as a regulated investment company ("RIC") under subchapter M of the Code.

The Funds use an accrual method of accounting for tax and financial accounting purposes, and use a calendar year for tax purposes. Each of the Funds elected pursuant to section 4982(e)(4)(A) to use its tax year ending on December 31 in lieu of the 1-year period ending on October 31, for purposes of calculating the required distribution under sections 4982(b)(1)(B) and 4982(e)(2). Except for Fund 1, each of the Funds made its election pursuant to section 4982(e)(4)(A) on its initial return. Fund 1 made its election in the first taxable year in which an election under section 4982(e)(4)(A) was made available. The Funds and the year in which they made their respective elections are as follows:

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<u>Fund</u>	<u>Year Election Made</u>
Fund 1	Year A
Fund 2	Year B
Fund 3	Year B
Fund 4	Year B
Fund 5	Year B
Fund 6	Year C

Each Fund pursues its respective investment objectives by investing in a specified group of Company's mutual funds representing different combinations of stocks, bonds, and cash investments and reflecting varying degrees of potential investment risk and reward. The Funds do not invest directly in a portfolio of securities (except for temporary cash investments), but rather, in order to meet their objectives, the Funds invest in shares of other of Company's mutual funds. The Funds do not employ investment advisors. The determination of how each of the Fund's assets will be invested in certain of Company's mutual funds is made by the officers of each Fund, under the supervision of the Board of Trustees, pursuant to each Fund's investment objectives and policies.

At the time the Funds originally made their respective elections, each believed that the election under section 4982 would relieve the administrative burdens associated with dual calculations of capital gains and losses under the excise tax and subchapter M provisions of the Code. Each Fund's experience, however, has been that the section 4982(e)(4)(A) election has created additional administrative burdens and complexities, primarily by limiting the Fund's ability to buy and sell securities in the underlying funds in the normal course of business during the last part of December (after the dividend declaration date). Each Fund must estimate its capital gains and losses for November and December to compute its required distributions for excise tax purposes. These gains and losses primarily arise from shareholder transactions that cannot be predicted with any reasonable degree of accuracy. Shareholder redemptions during the last part of December (between the dividend declaration date and December 31) may require a Fund to sell its underlying fund investments to maintain the Fund's targeted investment weightings in each underlying fund. Such sales result in gains or losses that affect the required distribution for excise tax purposes after the distribution has been declared. Additional net gains may result in an underdistribution that creates an excise tax liability.

Further, the promulgation of Treasury regulations coordinating the excise tax and subchapter M rules has greatly reduced the administrative burden referred to above. Accordingly, each Fund seeks consent to revoke its respective election to use its taxable year (the calendar year) for purposes of sections 4982(b)(1)(B) and 4982(e)(2).

Each Fund represents that:

1. The desire to revoke its section 4982(e)(4)(A) election is due to administrative and non-tax related financial burdens caused by the election.
2. It is not seeking to revoke its election for the purpose of preserving or securing a tax benefit.
3. It will neither benefit through hindsight nor prejudice the interests of the government as a result of being permitted to revoke its election.
4. It will not make a subsequent election under section 4982(e)(4)(A) for five calendar years following the year of the grant of revocation.

#### LAW and ANALYSIS

Section 4982(a), which was enacted as part of the Tax Reform Act of 1986 and is effective for tax years beginning after December 31, 1986, imposes an excise tax on every RIC for each calendar year equal to 4 percent of the excess (if any) of the "required distribution" for the calendar year over the "distributed amount" for the calendar year.

Section 4982(b)(1) defines the term "required distribution" to mean, with respect to any calendar year, the sum of 98 percent of the RIC's ordinary income for such calendar year, plus 98 percent of its capital gain net income for the 1-year period ending on October 31 of such calendar year.

Section 4982(b)(2) provides that the amount determined under section 4982(b)(1) for any calendar year shall be increased by the excess (if any) of the "grossed up required distribution for the preceding calendar year," over the distributed amount for such preceding calendar year.

Section 4982(b)(3) defines "grossed up required distribution" for any calendar year to mean the required distribution for such year determined by applying section 4982(b)(2) to such year but substituting "100 percent" for each percentage set forth in section 4982(b)(1).

Section 4982(e)(4)(A) provides that if the tax year of a RIC ends with the month of November or December, the RIC may elect to have its capital gain net income for its tax year applied in lieu of the 1-year period ending on October 31 of the calendar year for purposes of satisfying the required distribution defined in section 4982(b)(1). Section 4982(e)(4)(B) provides that, once made, such election may be revoked only with the consent of the Secretary.

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Based upon the information submitted and the representations made, we conclude that each Fund's desire to revoke its election under section 4982(e)(4)(A) of the Code is because of administrative burdens and not because of any federal tax-related financial burden caused by the election. None of the Funds seek to revoke their election for the purpose of preserving or securing a federal tax benefit. Additionally, the Funds will neither benefit through hindsight nor prejudice the interests of the government as a result of being permitted to revoke their elections.

### CONCLUSION

Accordingly, pursuant to section 4982(e)(4)(B), the Secretary consents to the revocation of the election made by the Funds under section 4982(e)(4)(A) effective for calendar Year D and subsequent years. In addition, in calculating the "required distribution" for calendar Year D, for purposes of section 4982(b)(1) and (e), the capital gain net income of the Funds will be determined on the basis of the capital gains and losses taken into account during the 10-month period from January 1, Year D, through October 31, Year D. See section 4982(e)(5) for the effect of this ruling on the treatment of any foreign currency gains or losses.

As a condition to the Secretary's consent to the revocation pursuant to section 4982(e)(4)(B), none of the Funds may make a subsequent election under section 4982(e)(4)(A) for a period of 5 calendar years following the year to which the grant of revocation applies, that is Year E through Year F.

Except as specifically ruled upon above, no opinion is expressed or implied as to any other federal excise or income tax consequences.

This ruling is directed only to the taxpayers requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

It is important that a copy of this letter be attached to the federal income and excise tax return filed by each of the Funds for the first year to which this ruling applies.

Sincerely,

Assistant Chief Counsel  
(Financial Institutions &  
Products)

By: William E. Blanchard  
William E. Blanchard  
Senior Technician Reviewer,  
Branch 3

Enclosure:

Copy of this letter  
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